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William P. Hovell

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Patent Ownership: An Employer's Rights To His Employee's Invention

Eighty-four percent of American patents are awarded to employed inventors;¹ therefore, the employer-employee relationship is critical to the modern American patent system. To encourage continued invention, the patent law must allow both the inventor and the developer (his employer) to obtain adequate compensation. Under the present United States patent system, the common law, which can be contractually altered, determines whether an inventor or his employer owns a patent.

Critics say the United States patent system discourages innovation by allowing an employer to use an employee's invention without adequately compensating the inventor.² Supporters argue that the employer has already compensated the inventor through his regular salary, and that an employer deserves the patent because of the vast amount of money spent researching and developing an otherwise worthless invention.³

The most academically pure method for compensating each contributor would be to determine the inventor's and the developer's contribution and give each a pro-rata share of the invention's value. This method, however, would be highly impractical because it requires meticulous records of each participant's work and detailed analysis of each invention's worth. The law must find a realistic but fair method of dividing an invention's value between the inventor and the developer. The patent law, therefore, needs a broad, clear rule which will allow a fair division in most circumstances.

This note attempts to articulate that rule. Part I examines the

1 *Rights of the Employed Inventor: Hearings on H.R. 4732 and H.R. 6635 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary*, 97th Cong., 2d Sess. 2 (1982) (statement of Rep. Kastenmeier). The Wall Street Journal reported a slightly smaller percentage (seventy-five percent). Wall St. J., Sept. 9, 1982, at 1, col. 6. The term "employed inventor" is not limited to persons specifically hired to invent; rather, it includes any employee who creates an invention. See Neumeyer, *Employee's Rights in Their Inventions*, 83 INT'L LAB. REV. 1, reprinted in 44 J. PAT. OFF. SOC'Y 674 (1962).

2 Wall St. J., *supra* note 1. See also Orkin, *The Legal Rights of the Employed Inventor: New Approaches to Old Problems* (pts. 1 & 2), 56 J. PAT. OFF. SOC'Y 648, 719, 727-36 (1974); Sutton & Williams, *Employed Inventors: The Case for the Moss Bill*, 8 U.S.F.L. REV. 557, 558 (1974); Note, *Statutorily Decreed Awards for Employed Inventors: Will They Spur Advancements in the Useful Arts?*, 15 IDEA 575, 576-77 (1971).

3 See Wall St. J., *supra* note 1.

common law methods for distributing patent rights between an inventor and his employer; Part II discusses the recently enacted and proposed statutory modifications to those methods; and Part III proposes an improved method for equitably distributing an invention's value between the inventor and his employer.

I. The Present System

An employer's right to his employee's patent depends on the parties' intent; an express or implied agreement determines who owns the invention and who can use it.⁴ In theory, an inventor retains the title to his patented invention unless he voluntarily assigns the patent to his employer;⁵ but, in practice, most employees have an obligation to assign their patents to their employers.⁶ This obligation may arise from an implied agreement created when an employee is hired to invent,⁷ or from a fiduciary duty which particular employees owe to their employer.⁸ Even if an inventor retains the patent, his employer may have a license to use the invention if the inventor used the employer's time, facilities, or money to create the invention, or if the employer promoted the invention while reasonably expecting a royalty-free use.⁹ The parties can also follow the modern trend and allocate patent rights through an express contract.¹⁰

A. *Employment Status*

Employment alone does not require an inventor to assign a patent to his employer.¹¹ Absent a specific agreement, an employer's rights (and the inventor's duties) arise from the inventor's employment status.¹² Although, arguably, federal common law may control

4 National Dev. Co. v. Gray, 316 Mass. 240, 246, 55 N.E.2d 783, 787 (1944); Kinkade v. New York Shipbldg. Corp., 21 N.J. 362, 366-67, 122 A.2d 360, 363-64 (1956).

5 Marshall v. Colgate-Palmolive-Peet Co., 175 F.2d 215, 217 (3d Cir. 1949); New Jersey Zinc Co. v. Singmaster, 71 F.2d 277, 278 (2d Cir.), cert. denied, 293 U.S. 591 (1934); National Dev. Co. v. Gray, 316 Mass. 240, 246, 55 N.E.2d 783, 787 (1944); A & C Eng'g Co. v. Athersholt, 355 Mich. 677, 685, 95 N.W.2d 871, 875, cert. denied, 361 U.S. 824 (1959).

6 See Sutton & Williams, *supra* note 2, at 561.

7 See notes 11-39 *infra* and accompanying text.

8 See notes 40-57 *infra* and accompanying text.

9 See notes 58-75 *infra* and accompanying text.

10 See notes 76-107 *infra* and accompanying text.

11 Banner Metals, Inc. v. Lockwood, 178 Cal. App. 2d 643, 654-55, 3 Cal. Rptr. 421, 431 (1960); Kinkade v. New York Shipbldg. Corp., 21 N.J. 362, 369, 122 A.2d 360, 363-64 (1956). An inventor can enjoin his employer from using the employee's patented invention. McNamara v. Powell, 256 A.D. 554, 11 N.Y.S.2d 491 (1939).

12 Aero Bolt & Screw Co. v. Iaia, 180 Cal. App. 2d 728, 736, 5 Cal. Rptr. 53, 58 (1960); National Dev. Co. v. Gray, 316 Mass. 240, 246, 55 N.E.2d 783, 787 (1944).

who initially receives the title to a patent,¹³ state law determines an

13 See Orkin, *supra* note 2, at 721-27. Orkin argues the federal courts have used their rulemaking policies to create a federal common law based on the dormant patent clause power (U.S. CONST. art. I, § 8, cl. 8).

This argument for a federal common law is weak because the United States Supreme Court has acknowledged the patent clause does not eliminate the state's police power over fraud in the *assignment* of an existing patent. *Allen v. Riley*, 203 U.S. 347 (1906). Later, the Court even said:

The Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy. For courts of a State may try questions of *title*, and may construe and enforce *contracts* relating to patents.

New Marshall Co. v. Marshall Engine Co., 223 U.S. 473, 478 (1911) (emphasis added). While both these cases involved *post*-invention transfers, the rule for *pre*-invention transfers probably would be the same. In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Supreme Court said: "State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner *not inconsistent with federal law*." *Id.* at 262 (emphasis added). See *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (forbidding the enforcement of a contract provision which exacted royalties after the patent's expiration).

This reasoning leads back to the question whether Congress has legislated in the area, so that the dormant power would preempt any state law. 35 U.S.C. § 261 (1976) provides that "Patents shall have the attributes of personal property." Taken alone, this sentence would suggest Congress intended that state law would control invention assignments in employment contracts, because personal property has traditionally been defined and regulated by state law. The federal statute, however, continues: "Applications for patents, patents, or any interest therein, shall be assignable in law by an instrument in writing." This indicates not only congressional intent to federalize the assignment of *post*-invention title, but also congressional silence concerning *pre*-invention title. Using the interpretative axiom, *expressio unius est exclusio alterius*, § 261 might even prohibit the assignment of a contingent (pre-assignment) interest. On the other hand, strictly construing the statute as being in derogation of the common law right of alienation, § 261 might even allow an oral assignment of the title to an invention after it has been created but before a patent application has been filed. More likely, Congress did not even consider pre-invention assignments.

The question, therefore, is whether the federal patent statutes, taken as a whole, leave room for a federal common law for this particular issue—the pre-invention title to an invention. A federal common law exists for some aspects of the patent law. For example, the Supreme Court applied a federal common law rule to eliminate licensee estoppel even though the Court stated that state law controlled the interpretation of the patent assignment. *Lear v. Adkins*, 395 U.S. 653 (1969). The Court noted the policy concerns and the need for a uniform federal rule. *Id.* at 673-74.

A federal policy or interest, however, must significantly conflict with the use of state law before a federal common law will be fashioned. *Mirree v. DeKalb County*, 433 U.S. 25 (1977). Interpreting this rule, the Second Circuit has said that a desire for uniformity is an insufficient reason to invoke a federal common law in private litigation. *In re Agent Orange Products Liab. Litig.*, 635 F.2d 987, 993 (2d Cir. 1980), *cert. denied*, 454 U.S. 1128 (1981). Although the author feels a national standard should apply, there is no compelling need for such a uniform standard. Thus, the patent laws do not create a federal common law concerning the pre-invention title to patents.

Several courts have reached the same conclusion that state law determines an employee's status. See *Lion Mfg. Corp. v. Chicago Flexible Shaft Co.*, 106 F.2d 930 (7th Cir. 1939); *Papizian v. American Steel & Wire Co.*, 155 F. Supp. 111 (N.D. Ohio 1957); *Toner v. Sobel-*

inventor's employment status.¹⁴ In addition, an employer has the burden of proving that the inventor's employment status required the inventor to assign a particular patent.¹⁵ An inventor's obligation to assign his patent depends on his employment status when he actually created the invention, rather than on any expectations when he was hired.¹⁶ These expectations, however, are an indication of the employee's status.¹⁷ The expectations can be broken down into three categories. An employer can hire an employee and expect him to: 1) invent a specific thing (specifically-inventive employment), 2) generally exercise his inventive skills (generally-inventive employment), or 3) not invent at all (non-inventive employment).¹⁸

1. Specifically-inventive Employment

An employee is hired to create a specific invention when his employer pays him to either invent a specific thing or solve a specific problem.¹⁹ The inventor implicitly agrees to assign the resulting patent to his employer.²⁰ The "specifically-inventive" employee, thus,

man, 86 F. Supp. 369 (E.D. Pa. 1949); *Heath v. Zenkich*, 107 Ill. App. 3d 207, 437 N.E.2d 675 (1982); *A & C Eng'g Co. v. Atherholt*, 355 Mich. 677, 95 N.W.2d 871, *cert. denied*, 361 U.S. 824 (1959).

14 *Standard Brands Inc. v. U.S. Partition & Packaging Corp.*, 199 F. Supp. 161, 176 (E.D. Wis. 1961).

15 *Bandag, Inc. v. Morening*, 259 Iowa 998, 146 N.W.2d 916 (1966). This is a factual inquiry. *E.F. Drew & Co. v. Reinhard*, 170 F.2d 679 (2d Cir. 1948); *Forberg v. Servel, Inc.*, 88 F. Supp. 503 (S.D.N.Y. 1949). Previously assigning a patent to his employer implies that an inventor agreed to assign other patents to his employer. *Fish v. Air-O-Fan Products Co.*, 285 F.2d 208 (9th Cir. 1960); *Marshall v. Colgate-Palmolive-Peet Co.*, 175 F.2d 215 (3d Cir. 1944); *Magnetic Mfg. Co. v. Dings Magnetic Separator Co.*, 16 F.2d 739 (7th Cir.), *cert. denied*, 274 U.S. 740 (1927); *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 18 Cal. Rptr. 659 (1962).

16 *Houghton v. United States*, 23 F.2d 386 (4th Cir.), *cert. denied*, 277 U.S. 592 (1928); *Forberg v. Servel, Inc.*, 88 F. Supp. 503 (S.D.N.Y. 1949); *Oliver v. Lockport Mills, Inc.*, 6 Misc. 2d 356, 163 N.Y.S.2d 317 (N.Y. Sup. Ct. 1956), *appeal dismissed*, 163 N.Y.S.2d 356 (1957).

17 *See United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932).

18 *See Gullette, State Legislation Governing Ownership Rights in Inventions Under Employee Invention Agreements*, 62 J. PAT. OFF. SOC'Y 732, 733 (1980). Gullette divides employment into "specific inventive," "general inventive," and "non inventive." Courts often ignore this three-tiered analysis, concentrating on whether the inventor was hired to create the disputed invention. If the inventor was not so hired, the courts sometimes call him a "general employee" even though he was hired to invent. *See, e.g., United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932).

19 *Houghton v. United States*, 23 F.2d 386 (4th Cir.), *cert. denied*, 277 U.S. 592 (1928); *Forberg v. Servel, Inc.*, 88 F. Supp. 503 (S.D.N.Y. 1949); *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944).

20 *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924); *Gill v. United States*, 160 U.S. 426 (1896); *Solomons v. United States*, 137 U.S. 342 (1890); *North American Philips Co. v.*

has a contractual and equitable duty to assign a patent—even for an invention created without his employer's help or knowledge.²¹ Courts, however, are reluctant to find a specifically-inventive employment agreement.²² They distinguish between employees hired to invent and those hired merely to improve the embodiment of an idea.²³ Therefore, a direction to develop an already-created idea is not a direction to invent.²⁴

A more difficult problem arises when a specifically-inventive employee creates an invention outside his assigned duties. Even a specifically-inventive employee does not have to assign a patent which is outside the scope of his employment if it is also unrelated to his employer's business and immediate research.²⁵ And, according to the United States Supreme Court, a specifically-inventive employee must only show that the invention is outside the scope of his employment.²⁶ In *United States v. Dubilier Condenser Corp.*,²⁷ the United States Supreme Court allowed a federal employee to retain his patent for an invention which the government had paid another group within his laboratory to invent. The Court reasoned the employment contract could not be so broadly construed as to imply an assignment of

Brownshield, 111 F. Supp. 762 (S.D.N.Y. 1953); *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944). See generally DELLER'S WALKER ON PATENTS §§ 376, 378 (2d ed. 1965).

21 *Wellington Print Works, Inc. v. Magid*, 242 F. Supp. 614 (E.D. Pa. 1965) (even an employer who had breached his employment contract by not paying the inventor's salary has a right to the patent); *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 798-99, 18 Cal. Rptr. 659, 665 (1962); *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944); *Steranko v. Inforex Inc.*, 5 Mass. App. 253, 362 N.E.2d 222 (1977).

22 See *Howe v. Floodmaster Mfg. Corp.*, 45 Ill. App. 2d 203, 195 N.E.2d 278 (1963) (a complaint alleging the inventor was an employee was dismissed because he was actually an independent contractor).

23 *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944); *Detroit Testing Lab. v. Robison*, 221 Mich. 442, 191 N.W. 218 (1922). Research scientists, see *Houghton v. United States*, 23 F.2d 386 (4th Cir.), cert. denied, 277 U.S. 592 (1928), and design engineers, see *Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893), are specifically inventive employees, while a general manager, see *Hapgood v. Hewitt*, 119 U.S. 226 (1886), is not a specifically inventive employee because of his diverse administrative tasks. See generally Annot., 61 A.L.R.2d 386 (1958).

24 *Cahill v. Regan*, 5 N.Y.2d 292, 157 N.E.2d 505, 184 N.Y.S.2d 348 (1959). Designing, constructing or devising a manufacturing method are not inventive tasks because they involve applying an idea rather than creating one. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960); *Cahill v. Regan*, 5 N.Y.2d 292, 157 N.E.2d 505, 184 N.Y.S.2d 348 (1959).

25 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932).

26 *Id.* at 187. The Court specifically found that the employees were *not* hired to invent. *Id.* at 195. In his dissent, Justice Stone interprets the majority to mean that the employees were not hired to create that *specific* invention. *Id.* at 213.

27 289 U.S. 178 (1932).

all work-related patents.²⁸

Justice Stone, in dissent, argued that an employee hired to invent, whether specifically or generally, had a duty to assign the patent on any invention within his employer's scope of business because the employment contract implies that very purpose.²⁹ Stone's position has received some support.³⁰

2. Generally-inventive Employment

A generally-inventive employee is hired to pursue his creative instincts, even if diverse from his assigned work;³¹ his employer anticipates no specific result or invention.³² An employee hired to generally exercise his inventive skills does not implicitly agree to assign any resulting patents to his employer,³³ although some courts infer an agreement to assign patents arising from the inventor's work.³⁴ In *Dubilier Condenser Corp.*, the Supreme Court held an employer may own a generally-inventive employee's patent if the inventor created the invention during working hours,³⁵ the patent is within the employer's scope of business,³⁶ or the inventor was assigned similar tasks.³⁷

28 *Id.* at 187-88.

29 *Id.* at 209. "[A]s the patent is the fruit of the very work which the employee is hired to do and for which he is paid, it should no more be withheld from the employer, in equity and good conscience, than the product of any service the employee engages to render." *Id.* at 215.

30 See *Velsicol Corp. v. Hyman*, 405 Ill. 352, 90 N.E.2d 717, *cert. denied*, 339 U.S. 966 (1950). A middle position would require an inventor to assign patents "incident" to his assigned duties. See *Lion Mfg. Co. v. Chicago Flexible Shaft Co.*, 106 F.2d 930 (7th Cir. 1939).

31 See Gullette, *supra* note 18.

32 *Id.*

33 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Solomons v. United States*, 137 U.S. 342 (1890).

34 See *International Pulverizing Corp. v. Kidwell*, 7 N.J. Super. 345, 71 A.2d 151 (1950). A comment to the Restatement (Second) of Agency also states:

If, however, one is employed to do experimental work for inventive purposes, it is inferred ordinarily, although not so specifically agreed, that patentable ideas arrived at through the experimentation are to be owned by the employer. This is even more clear where one is employed to achieve a particular result which the invention accomplishes.

RESTATEMENT (SECOND) OF AGENCY § 397 comment a (1958).

35 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 193 (1932). *But see* *Blum v. Commissioner*, 183 F.2d 281 (3d Cir. 1950).

36 *Dubilier Condenser Corp.*, 289 U.S. at 193. See also *Belanger v. Alton Box Bd. Co.*, 180 F.2d 87 (7th Cir. 1950).

37 *Dubilier Condenser Corp.*, 289 U.S. at 193. Justice Stone summarized the Court's position somewhat differently in his dissent:

The opinion of this Court apparently rejects the distinction between specific employment or assignment and general employment to invent, . . . in favor of the broader position . . . that wherever the employee's duties involve the exercise of

The uncertainty in this area arises from the courts' unwillingness to adopt a clear rule. The dilemma whether to give *all* the patent rights to either the inventor *or* his employer forces courts to blur the analysis to reach their desired result. A court, therefore, will avoid the generally-inventive analysis by finding either a specifically-inventive or a non-inventive employment status. Courts might be more willing to articulate their reasoning if an intermediate position were available to divide the patent rights between an inventor and his employer.

3. Non-inventive Employment

An employee who is not hired to invent does not impliedly agree to assign any patent—even one created through his employment—because his salary is not intended to be compensation for inventing.³⁸ While a non-inventive employee owns the patent, his employer may have a non-exclusive license to use the invention. This license exists either because the inventor used his employer's resources in creating the invention or because his employer promoted the invention while reasonably expecting a royalty-free use.³⁹

This three-tiered employment status analysis divides patent rights between an inventor and his employer according to reasonable expectations. An employee hired to create a specific invention only does what his employer expects when he creates that invention. A

inventive powers, the employer is entitled to an assignment of the patent on any invention made in the scope of the general employment.

Id. at 213-14 (Stone, J., dissenting). For agreement with the author's interpretation of the Court's position, see *Fersing v. Fast*, 121 F.2d 531 (C.C.P.A. 1941); *Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir.), *cert. denied*, 293 U.S. 576 (1934); *but see International Carrier-Call & Television Corp. v. R.C.A.*, 142 F.2d 493 (2d Cir. 1944).

³⁸ *Small v. Heywood-Wakefield Co.*, 13 F. Supp. 825 (D. Mass. 1936). In *National Dev. Co. v. Gray*, the court noted:

One by merely entering an employment requiring the performance of services of a noninventive nature does not lose his rights to any inventions that he may make during the employment, although the employment may have afforded the opportunity or occasion for the conception of an idea which may lead to a patent and the rendition of services in the course of his employment may have so enhanced his mechanical skills, scientific knowledge and inventive facilities as to enable him to develop and perfect the idea into a patentable article, and this is true even if the patent is for an improvement upon a device or process used by the employer or is of such great practical value as to supersede the devices or processes with which the employee became familiar during his employment.

316 Mass. at 246, 55 N.E.2d at 786. *See also* *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960); *RESTATEMENT (SECOND) OF AGENCY* § 397 (1958). *See generally* *DELLER'S*, *supra* note 20, § 375.

³⁹ *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944); *see* notes 58-75 *infra* and accompanying text.

generally-inventive employee may exceed his employer's expectations. Thus, where a generally-inventive employment is involved, the division of patent rights is more difficult, lending itself to a case by case analysis. Finally, a non-inventive employee always exceeds his employer's expectations when he creates an invention. As the foregoing suggests, the employment status analysis provides only broad categories which give the patent rights to one party or the other. This works well in the extreme categories—specifically-inventive or non-inventive employment, but does not accomplish an adequate distribution in the intermediate category—generally-inventive employment. A better analysis would apportion the rights in this intermediate category according to each party's contribution.

B. *Fiduciary Duty*

Some employees, usually corporate officers and directors, have a fiduciary duty not to compete with their employers. This duty may require an inventor to assign a particular patent to his employer.⁴⁰ Such a key employee, often called the employer's "alter-ego,"⁴¹ has an obligation to promote his employer's best interest by assigning a potentially-competing invention created during his employment.⁴² Unlike the employment-status analysis,⁴³ the fiduciary duty analysis depends on a duty of loyalty rather than an implied agreement in anticipation of invention.⁴⁴ An inventor is required to assign a pat-

40 *Dowse v. Federal Rubber Co.*, 254 F. 308 (N.D. Ill. 1918); *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 18 Cal. Rptr. 659 (1962).

41 In *Dowse*, the court defined an "alter ego" as "whether [the inventor] occupied such a relationship to the corporation that he was its alter ego, in such a capacity that it is consistent with good faith that he should recognize its ownership of the patents issued to him." 254 F. at 310. In a different context, such as establishing a shareholder's tort liability, "alter ego" is more restrictedly defined as:

that the corporation is not only influenced and governed by that person, but that there is such a unity of interest and ownership that the individuality, or separateness, of such a person and corporation has ceased, and the facts are such that an adherence to the fiction would, under the particular circumstances, sanction a fraud or promote injustice.

Associated Vendors, Inc. v. Oakland Meat Co., 210 Cal. App. 2d 825, 837, 26 Cal. Rptr. 806, 813 (1963). To avoid confusion, this note substitutes the term "fiduciary duty" wherever possible. When "alter ego" appears, the author intends the *Dowse* definition to apply.

42 *Dowse v. Federal Rubber Co.*, 254 F. 308 (N.D. Ill. 1918).

43 See notes 11-39 *supra* and accompanying text.

44 The cases do not clarify whether the fiduciary duty theory rests on an implied contract or equitable considerations. See *Preis v. Eversharp, Inc.*, 154 F. Supp. 98 (E.D.N.Y. 1957) (based on implied contract); *Grove v. Grove Valve & Regulator Co.*, 4 Cal. App. 3d 299, 84 Cal. Rptr. 300 (1970) (based on equity). If based on contract, the alter-ego can modify his duty to assign by specifically contracting otherwise. See *Preis v. Eversharp, Inc.*, 154 F. Supp. 98 (E.D.N.Y. 1957); *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 18 Cal.

ent to his employer under the fiduciary-duty analysis, if the employer can show: 1) the inventor was under a fiduciary duty to his employer; 2) the inventor had an obligation to assign that type of patent; and 3) the obligation to assign the patent existed when the invention was created.

Application of the alter-ego theory requires that the inventor have a fiduciary duty *not to compete with his employer*.⁴⁵ State corporate law determines who has this fiduciary duty.⁴⁶ Employment alone does not create a fiduciary duty not to compete with one's employer.⁴⁷ Rather, this fiduciary duty requires the existence of a confidential relationship⁴⁸ and actual control over the operation of the employer's business⁴⁹—an alter-ego relationship.

Once an employer establishes this fiduciary duty, the employer must prove the alter-ego had an obligation *to assign the specific type of invention* to avoid unfair competition with the employer.⁵⁰ Most state corporate laws prohibit officers and directors from competing directly with the corporation by usurping a "corporate opportunity."⁵¹

Rptr. 659 (1962). If based on equity, the alter-ego cannot contractually modify his fiduciary duty, but may raise equitable defenses such as laches or unclean hands. The author believes the contract theory better suits modern practice because of the need for flexibility to suit individual circumstances.

45 *Dowse v. Federal Rubber Co.*, 254 F. 308 (N.D. Ill. 1918); *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973). The alter-ego theory arose in a corporate setting but also applies to partnerships. See *Burr v. De La Vergne*, 102 N.Y. 415, 7 N.E. 366 (1886).

46 *Tripp v. United States*, 406 F.2d 1066 (Ct. Cl. 1969).

47 *United States v. Snepp*, 595 F.2d 926 (4th Cir. 1979) (a contract can create a fiduciary duty but not all contractual duties are fiduciary); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960) (the position's title is not controlling); *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1 (Mo. 1966) (en banc).

48 *Vigitron, Inc. v. Ferguson*, 120 N.H. 638, 419 A.2d 1115 (1980). The existence of a confidential relationship must be determined from the state corporate laws.

49 *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973). Thus, a president who is the majority stockholder, *LeFiell v. United States*, 162 Ct. Cl. 865 (1963); *Grove v. Grove Valve & Regulator Co.*, 4 Cal. App. 3d 299, 84 Cal. Rptr. 300 (1970), an elected president, *Preis v. Eversharp, Inc.*, 154 F. Supp. 98 (E.D.N.Y. 1957), a vice-president for development, *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 18 Cal. Rptr. 659 (1962), a vice-president and sales manager, *Diversey Corp. v. Mertz*, 13 F. Supp. 410 (N.D. Ill. 1936), and even a non-officer who actually runs the business, *Transparent Ruler Co. v. C-Thru Ruler Co.*, 129 Conn. 369, 28 A.2d 232 (1942), have a fiduciary duty to assign potentially competing inventions to their employers. A general manager, on the other hand, does not have such a fiduciary duty because he can compete with his employer. *Holders Mfg., Inc. v. Cudd*, 80 Idaho 557, 335 P.2d 890 (1959). Even a vice-president, general manager and principal shareholder is not his employer's alter-ego if another person actually runs the business. *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973).

50 *Detroit Testing Lab. v. Robison*, 221 Mich. 442, 191 N.W. 218 (1922).

51 See *Davis v. Alwac Int'l, Inc.*, 369 S.W.2d 797 (Tex. Civ. App. 1963); HENN, *LAW OF CORPORATIONS* § 236 (2d ed. 1970). See also *Science Accessories Corp. v. Summagraphics*

Other states, applying a broader rule, forbid officers and directors from even creating a "conflicting interest."⁵² Finally, a few states, applying a narrower rule, only prevent officers and directors from obtaining an opportunity learned through "official duties."⁵³ The conflicting interest rule apportions patents most equitably because it embodies the modern opinion of a corporate officer's fiduciary duties. Under that rule, an employer receives patents which would directly compete with its products, while the alter-ego retains the opportunity to create in subject areas where his employer does not compete.⁵⁴

Finally, an employer must prove the inventor created the invention *while* under an obligation to assign the resulting patent to the employer.⁵⁵ An inventor does not have to assign a patent simply because he later becomes an alter-ego of an employer needing his invention.⁵⁶ Likewise, a former alter-ego does not have to assign a patent for an invention created after leaving his position, even if he had worked on the same problem while an alter-ego.⁵⁷

The fiduciary duty analysis prevents an influential employee from abusing his confidential position or defrauding a trusting employer. The analysis, therefore, fulfills legitimate business expectations. Like the employment-status analysis, the fiduciary duty analysis varies somewhat from state to state depending on the state corporate law. Unlike the employment status analysis, the fiduciary duty analysis is well suited to actual situations because it focuses on relatively clear-cut principles of confidentiality and fiduciary duty.

C. *Shop Right*

Even if an inventor owns a patent, his employer may have a

Corp., 425 A.2d 957 (Del. 1980)(a corporate opportunity is something the corporation is financially able to undertake, within its line of business and one it is interested in).

52 See *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 800-01, 18 Cal. Rptr. 659, 667 (1962)(the law demands a scrupulous observance of an officer's duty not only to protect the corporate interest but also to refrain from doing anything that would injure the corporation or deprive it of profit which his skills might properly bring it); HENN, *supra* note 51, § 237.

53 See *Detroit Testing Lab. v. Robison*, 221 Mich. 442, 191 N.W. 218 (1922); HENN, *supra* note 51, § 237.

54 The conflicting interest test does not require an alter-ego to assign patents which the corporation would be indifferent to or only marginally benefit from. The corporation, on the other hand, is protected from the alter-ego keeping a potentially competing invention.

55 *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973).

56 *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973); *Grove v. Grove Valve & Regulator Co.*, 4 Cal. App. 3d 299, 84 Cal. Rptr. 300 (1970).

57 See *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 18 Cal. Rptr. 659 (1962); *Steranko v. Inforex, Inc.*, 5 Mass. App. 253, 362 N.E.2d 222 (1977).

"shop right," a license to use the invention, because the inventor either used his employer's resources in creating the invention,⁵⁸ or allowed his employer to promote the invention with the expectation of royalty-free use.⁵⁹

A shop right is an employer's royalty-free, non-exclusive, and non-transferable license to use an employee's patented invention.⁶⁰ An employment relationship does not automatically create a shop right.⁶¹ Rather, the employer must establish, under state law,⁶² an implied contract creating a shop right.⁶³ Therefore, if the inventor and his employer have already entered into an express agreement concerning patent rights, a court will not infer a shop right.⁶⁴

An inventor who uses even a small amount of his employer's time, facilities or money to develop an idea, may impliedly give his employer a shop right in the resulting invention.⁶⁵ Although courts

58 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960).

59 *See Gill v. United States*, 160 U.S. 426 (1896); *Melin v. United States*, 478 F.2d 1210 (Ct. Cl. 1973); *Hobbs v. United States*, 376 F.2d 488 (5th Cir. 1967), *modified*, 451 F.2d 849 (5th Cir. 1971); *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, 204 F.2d 946 (9th Cir.), *cert. denied*, 346 U.S. 873 (1953); *Cahill v. Regan*, 5 N.Y.2d 292, 157 N.E.2d 505, 184 N.Y.S.2d 348 (1959).

60 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Marshall v. Colgate-Palmolive-Peet Co.*, 175 F.2d 215 (3d Cir. 1949); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960). Generally, a direct employer-employee relationship must exist to give rise to a shop right. *Hobbs v. United States*, 376 F.2d 488 (5th Cir. 1967). *But see* *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158 (9th Cir. 1983). Courts disagree over whether a shop right is a contractual or equitable right. *See, e.g.*, *Gemco Eng'g & Mfg. Co. v. Henderson*, 151 Ohio St. 95, 84 N.E.2d 596 (1949).

61 *Aero Bolt & Screw Co. v. Iaia*, 180 Cal. App. 2d 728, 5 Cal. Rptr. 53 (1960); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960).

62 *Id.*

63 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Gill v. United States*, 160 U.S. 426 (1896); *Neon Signal Device, Inc. v. Alpha-Claude Neon Corp.*, 54 F.2d 793 (W.D. Pa. 1931); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960). Older cases alternately applied a contract or equitable estoppel theory. *See* Annot., 61 A.L.R.2d 356, 363 (1958).

64 *Jamesbury Corp. v. Worchester Valve Co.*, 443 F.2d 205 (1st Cir. 1971); *B.F. Gladding & Co. v. Scientific Anglers, Inc.*, 139 F. Supp. 236 (E.D. Mich. 1956); *Aero Bolt & Screw Co. v. Iaia*, 180 Cal. App. 2d 728, 5 Cal. Rptr. 53 (1960). If the employer pays royalties for the invention's use, a court will not infer a shop right. *Gemco Eng'g & Mfg. Co. v. Henderson*, 151 Ohio St. 95, 84 N.E.2d 596 (1949). An employer who tells an inventor to stop working on an idea waives any accrued shop right. *Dewey v. American Stair Glide Corp.*, 557 S.W.2d 643 (Mo. App. 1977).

65 *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1932); *Papazian v. American Steel & Wire Co.*, 155 F. Supp. 111 (N.D. Ohio 1957). In *Dubilier Condenser Corp.*, the Supreme Court said:

[W]here a servant, during his hours of employment, working with his master's materials and appliances, conceives and perfects an invention for which he obtains

may be liberal in creating shop rights,⁶⁶ they at least require that the inventor have used some of his employer's resources.⁶⁷ For example, a shop right may be established if an inventor works on his invention for a short time "during the hours of employment."⁶⁸ Even if an inventor creates an invention on his own time, his employer may receive a shop right if the inventor used the employer's facilities in creating the invention.⁶⁹ This may be true even if the use is minimal.⁷⁰

An employer also obtains a shop right by developing an invention with the reasonable expectation of royalty-free use.⁷¹ However, the employer must reasonably rely on an inventor's conduct which manifested assent to the free use.

A shop right exists for the life of the patent even if the employment relationship terminates earlier.⁷² Under the shop right, the em-

a patent, he must accord his master a non-exclusive right to practice the invention. . . . Since the servant uses his master's time, facilities and materials to attain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate it as often as he may find occasion to employ similar appliances in his business.

289 U.S. at 188-89. Since the *Dubilier Condenser Corp.* decision, the shop right concept has been broadened to include instances when only one factor is present. See *Hobbs v. United States*, 376 F.2d 488 (5th Cir. 1967); *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, 204 F.2d 946 (9th Cir. 1953); *Gemco Eng'g & Mfg. Co. v. Henderson*, 151 Ohio St. 95, 84 N.E.2d 596 (1949); *Dewey v. American Stair Glide Corp.*, 557 S.W.2d 643 (Mo. App. 1977).

66 See, e.g., *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, 204 F.2d 946 (9th Cir. 1953). But see *Hobbs v. United States*, 376 F.2d 488 (5th Cir. 1967).

67 *McNamara v. Powell*, 256 A.D. 554, 11 N.Y.S.2d 491 (1939).

68 *Gemco Eng'g & Mfg. Co. v. Henderson*, 151 Ohio St. 95, 84 N.E.2d 596 (1949). "Hours of employment" is narrowly defined, so it excludes lunch hour and afterwork hours. *Dewey v. American Stair Glide Corp.*, 557 S.W.2d 643 (Mo. App. 1977). But, officers are not limited to those restricted hours. *Wellington Print Works, Inc. v. Magid*, 242 F. Supp. 614 (E.D. Pa. 1965).

69 *Kinkade v. New York Shipbldg. Corp.*, 21 N.J. 362, 122 A.2d 360 (1956).

70 Traditionally, minimal use, such as \$4.20 worth of welding equipment, created a shop right. *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, 204 F.2d 946 (9th Cir. 1953). See also *Callahan v. Capron*, 280 F. 254 (D.R.I. 1922). Some forward-looking courts, however, have ignored such trivial use because employees routinely use small quantities of their employer's material for non-inventive purposes. *Aero Bolt & Screw Co. v. Iaia*, 180 Cal. App. 2d 728, 5 Cal. Rptr. 53 (1960); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960); *Dewey v. American Stair Glide Corp.*, 557 S.W.2d 643 (Mo. App. 1977).

71 *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158 (9th Cir. 1983); *Davis Harvester Co., Inc. v. Long Mfg. Co.*, 252 F. Supp. 989 (E.D.N.C. 1966), *aff'd*, 373 F.2d 513 (4th Cir. 1967).

72 *Tin Decorating Co. v. Metal Package Corp.*, 29 F.2d 1006 (D.C.N.Y. 1928), *aff'd*, 37 F.2d 5 (2d Cir.), *cert. denied*, 281 U.S. 759 (1930). At one time, the continued existence of a shop right depended on whether the inventor still worked for that employer. See *City of Boston v. Allen*, 91 F. 248 (1st Cir. 1898) (at that time, a shop right for an invention embodied in a machine only lasted as long as the machine continued to operate while a shop right in a process continued for the life of the patent).

ployer can make, use, and sell articles embodying the patented invention.⁷³ This right, however, does not permit the employer to sell articles outside his normal range of business.⁷⁴ The employer cannot voluntarily transfer the shop right, but a legal successor, such as a bankruptcy receiver or a successor corporation, can exercise the shop right.⁷⁵

The shop right doctrine equitably distributes patent rights between an inventor and his employer—the inventor retains the patent's title and his employer obtains the invention's free use. The shop right doctrine attempts to *divide* the patent rights between an inventor and his employer rather than give the rights to one or the other. If courts, following the modern trend, ignore minimal uses, the shop right doctrine will adequately reflect the parties' presumed intent.

D. *Express Contract*

Most modern employers, unwilling to allow vague common law doctrines to determine their patent rights, use express written contracts to allocate patent rights between themselves and their employees.⁷⁶ The overwhelming majority of states⁷⁷ allow these contracts which usually transfer all of the inventor's patent rights to the employer in return for the inventor's regular salary.⁷⁸ Consequently, the employer can plan a steady expense rather than risk the unprojectable future costs of obtaining the patent rights at a later date.

73 *Brown v. Ocean Drilling & Exploration Co.*, 374 A.2d 842 (Del. Ch.), *rev'd on other grounds*, 403 A.2d 1114 (Del. 1977); *Gemco Eng'g & Mfg. Co. v. Henderson*, 151 Ohio St. 95, 84 N.E.2d 594 (1949).

74 *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158 (9th Cir. 1983); *Thompson v. American Tobacco Co.*, 174 F.2d 773, 778 (4th Cir. 1949).

75 *Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893) (employee continued to work for successor); *General Paint Corp. v. Kramer*, 68 F.2d 40 (10th Cir. 1933), *cert. denied*, 292 U.S. 623 (1934) (a parent corporation cannot use its subsidiary's shop rights as long as they retain their separate corporate identities); *Neon Signal Devices Inc. v. Alpha-Claude Neon Corp.*, 54 F.2d 793 (W.D. Pa. 1931); *Wilson v. J.G. Wilson Corp.*, 241 F. 494 (C.D. Va. 1917). *But see* *Hapgood v. Hewitt*, 119 U.S. 226 (1886). *See generally* DELLER'S, *supra* note 20, § 409.

76 *See* Orkin, *supra* note 2. These agreements supercede the common law. *Jamesbury Corp. v. Worchester Valve Co.*, 443 F.2d 205 (1st Cir. 1971). Once a particular contract is found invalid, the employer's rights will be determined under the common law. *See* *Steranko v. Inforex, Inc.*, 5 Mass. App. 253, 362 N.E.2d 222 (1977).

77 California, Minnesota, North Carolina and Washington have statutory restrictions on invention assignments in employment contracts. *See* notes 117-22 *infra* and accompanying text. State law controls the interpretation and validity of express patent assignments. *Combs v. Plough, Inc.*, 681 F.2d 469 (6th Cir. 1982); *Stanfield v. Osborne Industries, Inc.*, 7 Kan. App. 416, 643 P.2d 1115 (1982); *A & C Eng'g Co. v. Atherholt*, 355 Mich. 677, 95 N.W.2d 871, *cert. denied*, 361 U.S. 824 (1959); *Arena v. Coldelite Corp.*, 205 U.S.P.Q. 566 (N.J. Super. 1979).

78 *See* Orkin, *supra* note 2.

Unfortunately, the law imposes few restrictions on these express contracts.⁷⁹ In consideration for a terminable-at-will employment contract,⁸⁰ an employee may even assign inventions created before his employment,⁸¹ and those to be created after he resigns.⁸² While an inventor theoretically can attack an employment contract requiring a patent assignment like any other contract,⁸³ courts are generally unsympathetic to the inventor.⁸⁴

The courts seem to ignore the employer's inherently stronger bargaining position and superior legal knowledge. For example, employment contracts that assign patents rarely fail for lack of consideration because the inventor's continued employment is considered adequate compensation.⁸⁵ Also, public policy does not prohibit an employee from assigning his future inventions.⁸⁶ Patent rights, like other property rights,⁸⁷ can be alienated before coming into exist-

79 See *DuPont Rayon Co. v. Paley*, 4 F. Supp. 290 (N.D. Ill. 1933), *aff'd*, 71 F.2d 856 (7th Cir. 1934), where the district court stated:

There is a modern philosophy to the effect that earned income should be more liberally returned to the individual making it possible, but until such policy shall be reflected in legislation invalidating a contract of sale of inventive labor, this court is powerless to afford relief against situations which parties, mentally competent, have created for themselves.

4 F. Supp. at 292.

80 *Goodyear Tire & Rubber Co. v. Miller*, 22 F.2d 353 (9th Cir. 1927); *Magnetic Mfg. Co. v. Dings Magnetic Separator Co.*, 16 F.2d 739 (7th Cir.), *cert. denied*, 274 U.S. 740 (1927).

81 *Rotary Lift Co. v. Clayton*, 127 F. Supp. 176 (D. Mass. 1954); *Holders Mfg. Co. v. Cudd*, 80 Idaho 557, 335 P.2d 890 (1959).

82 *Conway v. White*, 9 F.2d 863 (2d Cir. 1925).

83 See *Conway v. White*, 9 F.2d 863 (2d Cir. 1925); *Rotary Lift Co. v. Clayton*, 127 F. Supp. 176 (D. Mass. 1954).

84 See Stedman, *The Employed Inventor, the Public Interest, and Horse and Buggy Law in the Space Age*, 4 N.Y.U. L. REV. 1 (1970), *reprinted in* 2 PAT. L. REV. 207 (1970).

85 *Fish v. Air-O-Fan Products Co.*, 285 F.2d 208 (9th Cir. 1960); *Conway v. White*, 9 F.2d 863 (2d Cir. 1925). Previously negotiated employment might not be new consideration for a subsequent assignment agreement. *Hewett v. Samsonite Corp.*, 32 Colo. App. 150, 507 P.2d 1119 (1973). See also *Muenzer v. W.F. & John Barnes Co.*, 9 Ill. App. 2d 391, 133 N.E.2d 312 (1956) (employee's salary tied to sales rather than invention). In states where the adequacy of consideration can be challenged, an inventor may argue his employer did not give enough consideration because the employee's salary was only paid for his normal duties. See generally CALAMARI & PERILLO, *CONTRACTS* § 4-3 (2d ed. 1977).

86 *Conway v. White*, 9 F.2d 863 (2d Cir. 1925). But see Alam, *Employer's Obligations Regarding Employee Inventions—A New Perspective*, 8 EMPL. REL. L.J. 463 (1982), for a strong argument why public policy should limit these agreements. See generally DELLER'S, *supra* note 20, § 373.

87 The courts do not distinguish between patent rights and more concrete property rights. The author believes that intellectual property rights are considerably different because they are not attributable to any particular individual before they come into existence and the potential owner can prevent the rights from vesting in himself but cannot guarantee

ence.⁸⁸ Using the fiction of equal bargaining position, courts have refused to void these adhesion contracts as unreasonable,⁸⁹ unconscionable,⁹⁰ or against public policy.⁹¹ But, modern developments in adhesion contract theory may mitigate these harsh results.

The inventor's best chance to successfully attack the assignment contract is to allege fraud in its execution. The inventor, however, must "clearly and cogently" prove fraud.⁹² In *Roberts v. Sears Roebuck & Co.*,⁹³ the United States Court of Appeals for the Seventh Circuit affirmed a jury award⁹⁴ of one million dollars in damages to an inventor whose employer had fraudulently obtained a patent assignment. The court held that Sears, during the licensing negotiations, breached its fiduciary duty to Roberts, its employee, by fraudulently misstating the invention's ownership, patentability, and market value. The court noted that these misstatements were made worse by the existence of an employment relationship, the exchange of confidential information, and the disparity in age, intelligence, and busi-

they will come into existence. *But see* Muenzer v. W.F. & John Barnes Co., 9 Ill. App. 2d 391, 406 (1956) (inventive talents can be contracted for just as mechanical skills).

88 *Graham v. John Deere Co.*, 383 U.S. 1 (1966) (rejecting the natural rights theory); *Conway v. White*, 9 F.2d 863 (2d Cir. 1925). *See generally* DELLER's, *supra* note 20, § 347.

89 *Conway v. White*, 9 F.2d 863 (2d Cir. 1925). A turn-of-the-century case holds that an employer's threat to fire an inventor for refusing to assign a patent does not constitute duress. *Barr Car Co. v. Chicago, & N. W. Ry.*, 110 F. 972 (7th Cir. 1901), *cert. denied*, 186 U.S. 484 (1902). An employer does not even unreasonably coerce an inventor by saying the inventor will have difficulties finding another job. *Rotary Lift Co. v. Clayton*, 127 F. Supp. 176 (D. Mass. 1954). Modern notions of reasonableness and duress probably would change these results.

90 *Patent & Licensing Corp. v. Olsen*, 188 F.2d 522 (2d Cir. 1951); *Guth v. Minnesota Mining & Mfg. Co.*, 72 F.2d 385 (7th Cir. 1934), *cert. denied*, 294 U.S. 711 (1935); *Goodyear Tire & Rubber Co. v. Miller*, 22 F.2d 353 (9th Cir. 1927); *Conway v. White*, 9 F.2d 863 (2d Cir. 1925). The theory of unconscionability has undergone drastic changes in recent times, so these old cases may be inapplicable. *See* Stedman, *supra* note 84.

91 *Conway v. White*, 9 F.2d 863 (2d Cir. 1925).

92 *DuPont Rayon Co. v. Paley*, 4 F. Supp. 290 (N.D. Ill. 1933), *aff'd*, 71 F.2d 856 (7th Cir. 1934). *See also* *Arena v. Coldelite*, 205 U.S.P.Q. 566 (N.J. Super. 1979) (an inventor's mistake in law—thinking he had to assign his patent to his employer—does not create a cause of action without the addition of fraud).

93 573 F.2d 976 (7th Cir.), *cert. denied*, 439 U.S. 860 (1978), *on remand*, 617 F.2d 460 (7th Cir.), *cert. denied*, 449 U.S. 975 (1980).

94 The jury awarded damages while the Seventh Circuit, on remand, refused to allow restitution. Like most employer-employee cases, most issues are factual questions. *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, 204 F.2d 946 (9th Cir. 1953); *Banner Metals, Inc. v. Lockwood*, 178 Cal. App. 2d 643, 3 Cal. Rptr. 421 (1960). It is rare for such issues to be tried before a jury because, rather than seeking damages, the parties often seek equitable relief—either the employer wants an injunction requiring the inventor to assign a patent, or the inventor asks the court to rescind an already executed agreement. *See* *North American Philips Co. v. Brownshield*, 111 F. Supp. 762 (S.D.N.Y. 1953). Juries might be more sympathetic to the employed inventor.

ness experience between Sears' patent attorney and Roberts, a teenager.⁹⁵ Thus, at least one circuit court has imposed a duty of fair dealing on an employer negotiating with his employee over rights to the employee's invention.

An inventor may also attack the duration of a patent assignment clause in an employment contract. An inventor can freely assign an invention created before his employment.⁹⁶ This is not a serious problem because both parties have an idea of the invention's value which can be reflected in the employee's salary. But, an employment contract's assignment of patents for inventions which might be created after the inventor has terminated his employment (a trailer clause) raises unfair competition questions.⁹⁷

Trailer clauses⁹⁸ are a product of the tension between an inventor's rights to create, and to seek future employment—and his employer's right to protect confidential information. An inventor has a right to use skills and knowledge gained through prior employment;⁹⁹ thus, his former-employer cannot require him to forego his inventive powers.¹⁰⁰ In addition, an employee has the right during his employment to plan to compete with his employer once he has resigned.¹⁰¹ The employer, however, can protect his confidential information for

95 573 F.2d at 983. Roberts, age 18, invented a quick release socket wrench. He filed a patent application and submitted his invention to Sears, his employer. After conducting several tests to determine the invention's value, Sears knowingly underrepresented the invention's value in its licensing negotiations with Roberts. In addition, Sears channeled some work to Robert's patent attorney, creating a conflict of interest. When Roberts discovered the real value of his invention, he sued for damages. Once the jury awarded damages, Roberts amended his complaint to seek rescission of the original licensing agreement and an accounting of Sear's profits. In a followup case, the Seventh Circuit, relying on a choice of remedy, refused to allow the district court to force Sears to retribute its unjust enrichment. *Roberts v. Sears Roebuck & Co.*, 617 F.2d 460 (7th Cir.), *cert. denied*, 449 U.S. 975 (1980). Sears had already voluntarily reassigned the patent to Roberts. As a result, Sears made forty-four million dollars on Roberts' patent and only paid him one million dollars. 617 F.2d at 467. (Swygert, J., dissenting).

96 *Rotary Lift Co. v. Clayton*, 127 F. Supp. 176 (D. Mass. 1954). The court will not imply such an assignment. *Rigging Int'l Maint. Co. v. Gwin*, 128 Cal. App. 3d 594, 180 Cal. Rptr. 451 (1982).

97 *See United Shoe Mach. Co. v. La Chapelle*, 212 Mass. 467, 99 N.E. 289 (1912).

98 A trailer clause binds an inventor to assign the patent for any invention created by him during some limited time following the termination of his employment. *Doherty & Iandiorio, The Law of the Employed Inventor—Time for a Change?*, 57 MASS. L.Q. 27, 36 (1972).

99 *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1 (Mo. 1966)(en banc); *Welex Jet Servs., Inc. v. Owen*, 325 S.W.2d 856 (Tex. Civ. App. 1959).

100 *Welex Jet Servs., Inc. v. Owen*, 325 S.W.2d 856 (Tex. Civ. App. 1959). *See also Hickory Specialties v. B & L Laboratory, Inc.*, 592 S.W.2d 583 (Tenn. App. 1979).

101 *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1 (Mo. 1966)(en banc).

a reasonable time.¹⁰² An employer can also prevent an employee from creating an invention while employed and saving it until after he resigns.¹⁰³

Because of this tension, a trailer clause is not void per se; rather, the clause's reasonableness determines its validity.¹⁰⁴ A clause is unreasonable if it: 1) extends beyond any apparent protection which the employer reasonably requires; 2) prevents the inventor from seeking other employment; or 3) adversely impacts the public.¹⁰⁵ Therefore, a trailer clause is valid when limited to a reasonable time¹⁰⁶ and to the subject matter an inventor worked with or had knowledge of

102 *G T I Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969). *But see* *Armormite Lens Co. v. Campbell*, 340 F. Supp. 273 (S.D. Cal. 1972) (former employee only required to assign patents based on the employer's confidential information).

103 *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277 (2d Cir.), *cert. denied*, 293 U.S. 591 (1934); *National Dev. Co. v. Gray*, 316 Mass. 240, 55 N.E.2d 783 (1944); *International Pulverizing Corp. v. Kidwell*, 7 N.J. Super. 345 (1950). *But see* *Jamesbury Corp. v. Worchester Valve Co.*, 443 F.2d 205 (1st Cir. 1971) (employee could take idea short of invention even if in bad faith).

104 *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D.Conn. 1952) (the court emphasized the inventor had no prior experience in the field and the limitation covered an insignificant fraction of the machine design field). *See generally* *DELLER'S*, *supra* note 20, § 374.

105 *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447 (Ct. Cl. 1970); *G T I Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952).

106 A court will uphold a one-year restriction on inventing in a particular field, *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952), but will strike down a broad five year restriction on inventing as an unreasonable restraint of trade, *G T I Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969).

The *Clarke* court explained in dicta one of its reasons for upholding a restriction:

In the long run, the public is better served by giving a year's head-start in the competitive race to a manufacturer who has ventured his capital and skill in research and in the practical application of the accumulation of his knowledge and experience in that field, than by leaving such a one to start the race at scratch with a competitor having no such stake in the business.

108 F. Supp. at 334. Compare the *Clarke* court's reasoning with the dicta in *Calhoon* striking down a restriction:

First, a court could not enforce such a restraint. . . . Second, such restraint would be unduly harsh. . . . Third, a court has no power to compel an employee to erase from his mind knowledge which he has acquired from his employer.

. . . .

With respect to the question of whether the provision of [the] contract requiring [the inventor] to assign all ideas and improvements for a period of five years after termination of his employment contract is void against public policy, three principals of law must be considered: 1) Is the restraint reasonable in the sense that it is no greater than necessary to protect the employer in some legitimate interest? 2) Is the restraint reasonable in the sense that it is not unduly harsh and oppressive on the employee? 3) Is the restraint reasonable in the sense that it is not injurious to the public?

309 F. Supp. at 767, 773.

during his employment.¹⁰⁷

Adhesion contracts shift what well-reasoned balance is found in the employment-status, fiduciary-duty, and shop-right analyses to an employer dominated situation. Because of the employer's strong bargaining position, he can deprive an inventor of his patent rights before the invention even comes into existence. Unfortunately, the existing law in most states does not prevent an employer from causing this imbalance. The legislature should restore this balance by limiting an inventor's power to contract away his patent rights.

II. Statutory Modifications

The common law methods for distributing patent rights may result in an inequitable distribution. These methods arose in an era when employees had few rights but employers were too small to take full-advantage of the legal imbalance.¹⁰⁸ But, as employers have grown more powerful, they have been able to obtain more and more employee patent rights through contracts. Even where the employer does not overreach in the contract, a more fundamental problem exists simply because the modern employee has no immediate stake in his invention. If an inventor contracts away his present interest in an undiscovered invention, he may be unwilling to undergo the risks associated with promoting his invention. Thus, without the potential for direct gain from his invention, an inventor may abandon a radical proposal rather than risk his employer's displeasure.

Several alternative statutory schemes would improve the present common law system of allocating patent rights between an inventor and his employer. Most reformers agree that the employed inventor is undercompensated.¹⁰⁹ However, they differ over what method would properly increase the inventor's compensation and what

107 One court has stated:

Hold-over clauses are simply a recognition of the fact of business life that employees sometimes carry with them to new employers inventions or ideas so related to work done for a former employer that in equity and good conscience the fruits of that work should belong to that former employer. In construing and applying hold-over clauses, the courts have held that they must be limited to reasonable times . . . and to subject matter which an employee worked on or had knowledge of during his employment. . . . Unless expressly agreed otherwise, an employer has no right under a hold-over clause to inventions made outside the scope of the employee's former activities, and made on and with a subsequent employer's time and funds.

Dorr-Oliver, Inc. v. United States, 432 F.2d 447, 452 (Ct. Cl. 1970). Even if a trailer clause is unreasonable, some courts will enforce the clause to the extent it is reasonable. *See Guth v. Minnesota Mining & Mfg. Co.*, 72 F.2d 385 (7th Cir. 1934), *cert. denied*, 294 U.S. 711 (1935).

108 *See Stedman, supra* note 84.

109 *See Orkin, supra* note 2.

amount the employer should retain as compensation for his investment in research and development.¹¹⁰

Other countries use various statutory approaches. Some countries limit the inventor's ability to alienate his patent rights, either by preventing him from assigning potential patent rights before an invention is created,¹¹¹ or by requiring him to retain an interest in his patented invention.¹¹² Many countries require an employer to share an invention's value with the inventor.¹¹³ Finally, most socialist countries award the inventor a bonus for each patented invention.¹¹⁴

This country needs similar statutory reform. In the past five years, four states¹¹⁵ have enacted statutes prohibiting an employer from requiring the assignment of certain inventions as a condition of employment. Congress has considered several bills¹¹⁶ requiring an employer to share an invention's value with the inventor and prohibiting an employer from requiring the assignment of certain inventions as a prerequisite to employment.

A. *State Statutes*

The state statutes attempt to prevent an employer from abusing his unequal bargaining power. These statutes limit the type of inventions which an employer can contractually require an inventor to assign. Under these statutes, the employment-status, fiduciary-duty,

110 *Id.*

111 *See* Neumeyer, *supra* note 1 (Japan).

112 *Id.* (Austria).

113 *Id.* (Denmark, West Germany and Sweden). In 1977, the United Kingdom replaced its common law employee patent right distribution system with a statutory compensation scheme similar to the other members of the Common Market. The Patent Act of 1977, § 39-43, 47 HALSBURY'S STATUTES OF ENGLAND 1052-58 (3d ed. 1977). Under the 1977 English Patent Act, an inventor retains all patent rights except ones made: a) "in the course of [his] normal duties [or ones] specifically assigned to him, and . . . an invention might reasonably be expected" [generally-inventive employment] or b) the inventor "had a special obligation to further the interests of the employer's undertaking" [a fiduciary duty]. *Id.* § 39. The inventor's compensation depends on his duties and remunerations, his effort and skill in making the invention, other people's contribution to the invention, and the employer's contribution in creating and developing the invention. *Id.* § 41.

This well-drafted English statute appears to adapt the common law categories to a statutory compensation scheme. American reformers should examine the results in England, and, perhaps, the United States should follow the English lead. For a general interpretation of the English statute, see Reid, *Employee Inventions Under the Patent Act 1977*, 1979 J. BUS. L. 350.

114 *See* Neumeyer, *supra* note 1 (U.S.S.R.).

115 California, Minnesota, North Carolina, and Washington. The Wall Street Journal Article, *supra* note 1, reported that Illinois passed similar legislation, but Enlow, *Employer and Employee Agreements*, 1982 PAT. L. ANN. 103, noted the legislation was only pending, and the author verified that fact.

116 Brown (1947), Moss (1971), Hart-Owens (1974) and Kastenmeier (1981).

and shop-right tests remain largely unchanged. The statutes differ only slightly in which types of inventions are assignable and in who has the burden of proving whether a particular invention falls within the category of those which must be assigned.

In 1977, Minnesota passed the first "freedom to create" statute.¹¹⁷ The statute voids, as against public policy, any provision in an employment agreement which requires an inventor to assign an invention which was created without using his employer's "equipment, supplies, facility or trade secret," which is unrelated to the employer's business or research, and which did not result from work the inventor performed for his employer. The inventor has the burden of proving that a particular invention falls within the statutory prohibition.¹¹⁸

Washington's freedom to create statute is based on the Minnesota statute. Under the Washington statute, however, the employer has the burden of proving the statute applies to a particular invention.¹¹⁹ The California statute¹²⁰ does not require as direct a relationship between the subject matter of the invention and the employer's business as the other state statutes.¹²¹ This difference favoring the employer is mitigated since the legislative intent indicates that the term employer should be read narrowly.¹²²

These state statutes restore a contractual balance between the inventor and his employer. Under these state statutes, however, an

117 MINN. STAT. § 181.78 (1977).

118 *Id.* The Minnesota statute reads: "Any provision . . . which provides . . . shall not apply . . .," so the inventor has the burden of proving the provision's existence and its illegality.

119 WASH. REV. CODE ANN. § 49.44.140 (1979). The Washington statute reads: "A provision . . . which provides . . . does not apply . . . unless . . ." Thus, the statute leaves the employer with the final burden of proof once the inventor establishes the *prima facie* case.

120 CAL. LAB. CODE §§ 2870, 2871 (West 1979).

121 The California legislature eliminated the word "directly" from the Minnesota statute. Thus, an invention which has many applications, including one useful to the employer, is covered by the California statute while the other state statutes may allow the inventor to retain the patent.

122 The California statute's author submitted the following statement to the legislature during deliberations:

In order to ensure that the patent rights of employees do not fluctuate wildly depending upon the market position of an employee's remote parent corporation, it is necessary to declare as the legislative intent of AB 474 that in a corporation having multiple divisions, affiliates, subsidiaries, profit centers or companies, the term employee (sic) as used in AB 474 shall relate only to the division, affiliate, subsidiary, profit center, or company (whichever unit is smallest) rather than to the parent corporation.

Gullette, *supra* note 18, at 752 (Gullette's emphasis deleted).

inventor still must assign certain patents without present or future compensation. Therefore, they do not address the more fundamental problem of giving the inventor a stake in his invention.

B. *Proposed Federal Statutes*

Several proposals designed to improve the rights of the employed inventor have been introduced into Congress. The earliest measure, the Brown Bill,¹²³ would have invalidated any patent assignment in an employment contract.¹²⁴ This extreme solution was soundly defeated.¹²⁵ In the late sixties, Congressman Moss¹²⁶ introduced a bill which would have required an employer to share an invention's value with its inventor.¹²⁷ The Moss Bill died in committee.¹²⁸ A bill introduced in 1974, the Hart-Owens Bill,¹²⁹ which also died in committee,¹³⁰ would have required that a minimum of two percent of an invention's value be given to the inventor. In 1981, Congressman Kastenmeier¹³¹ introduced two bills. The first would have prohibited an employer from requiring pre-invention assignment of certain inventions;¹³² the second sought to establish an arbitration board to award adequate compensation to the inventor.¹³³ Although Congress did not enact Kastenmeier's bills, the growing number of state statutes may pressure Congress to create a national standard.

1. The Moss Bill

In 1969 Congressman Moss introduced a bill seeking to eliminate employment agreements as a method of allocating patent rights

123 The bill was named after Congressman George E. Brown, Jr., D. Cal.

124 H.R. 4932, 88th Cong., 1st Sess. (1963), *reprinted in* Orkin, *supra* note 2, at 657, *reintroduced as* H.R. 5918, 89th Cong., 1st Sess. (1965).

125 See Orkin, *supra* note 2.

126 Congressman John E. Moss was a Democrat from California.

127 H.R. 15512, 91st Cong., 1st Sess. (1969), *reprinted in* 116 CONG. REC. 744 (1970), *reintroduced as* H.R. 1483, 92d Cong., 1st Sess. (1971).

128 See Orkin, *supra* note 2.

129 S. 1321, 93d Cong., 1st Sess. (1973) (introduced by Sen. Gary Hart, D. Col.), *reprinted in* 119 CONG. REC. 9102, and H.R. 7111, 93 Cong., 1st Sess. (1973) (introduced by Rep. Owens, D. Utah). The bill was a general revision of the patent law.

130 See *House Hearings*, *supra* note 1.

131 Congressman Robert W. Kastenmeier is a Democrat from Wisconsin.

132 H.R. 4732, 97th Cong., 1st Sess. (1981), *reprinted in* 24 PAT. TRADEMARK & COPYRIGHT J. (BNA) 375 (Aug. 12, 1982).

133 H.R. 6635, 97th Cong., 2d Sess. (1982), *reprinted in* 24 PAT. TRADEMARK & COPYRIGHT J. (BNA) 376 (Aug. 12, 1982).

between an inventor and his employer.¹³⁴ The bill, modeled after the West German Patent Law,¹³⁵ divided inventions into service inventions—inventions related to the employer's business, and free inventions—all other inventions.¹³⁶

The bill would have required an inventor to offer any service invention to his employer. The employer, upon accepting the invention, would have had to compensate the inventor for his portion of the invention's fair market value. This value would have been based on the value of a license to use the invention, the employer's actual savings or profit from using the invention, and the price the employer would have paid another to create the invention.¹³⁷

The Moss Bill died in committee, possibly because it was such a radical revision of the existing law.¹³⁸ Several objections to the Moss Bill were advanced.¹³⁹ While most of the objections are easily dismissed, one, that the proper recipient and appropriate compensation would be difficult to determine, fatally faults the Moss Bill. Although the bill sought to establish an arbitration board to settle disputes over an inventor's compensation, the system would have relied on private settlements to avoid being overburdened. In addition, the Moss Bill did not provide real guidelines to establish an invention's value and the inventor's share of that value.

2. The Hart-Owens Bill

In the next Congress, Senator Hart and Congressman Owens introduced a bill (the Hart-Owens Bill) that would have invalidated any provision in an employment contract that required an inventor to assign a patent or patent application to his employer for less than two percent of the "profit or savings."¹⁴⁰ The Hart-Owens Bill, therefore, only established minimum compensation—an employer could agree to give the inventor a higher percentage. Apparently,

134 H.R. 15512, *supra* note 127.

135 See Gullette, *supra* note 18, at 739; Orkin, *supra* note 2, at 658.

136 H.R. 15512, *supra* note 127.

137 *Id.* See also Sutton & Williams, *supra* note 2, at 563.

138 See Gullette, *supra* note 18, at 740.

139 The major objections to the Moss Bill were 1) it rewards inventors rather than promotes the progress of the useful arts as the Constitution requires; 2) it interferes with the freedom of contract; 3) it increases the costs of doing business; 4) the existing laws are adequate; and 5) the proper recipient and appropriate compensation are difficult to determine. See Sutton & Williams, *supra* note 2, at 568-83. Sutton and Williams favored the enactment of the Moss bill.

140 S. 1321 and H.R. 7111, *supra* note 129. Orkin points out that most employed inventors receive less than the minimum two percent, so the bill would have generally improved the inventor's compensation. Orkin, *supra* note 2, at 661.

the bill would not have eliminated the common law methods for an employer to obtain the invention.¹⁴¹ Thus, the Hart-Owens Bill would not even have guaranteed the two percent unless the invention fell outside the employment-status and fiduciary-duty tests.

Unlike the Moss Bill, the Hart-Owens Bill did not propose an arbitration system—the inventor and his employer were expected to negotiate the percentage. The bill did seek to give the Patent Commissioner the authority to establish procedures to implement the system, but the inventor's basic remedy would have been to sue his employer. The bill, therefore, would have only slightly modified the existing distribution of rights while substantially raising the inventor's compensation.

The Hart-Owens Bill would have established a workable, self-patrolling system. Unfortunately, like the Moss Bill, the Hart-Owens Bill died in committee.¹⁴²

3. The Kastenmeier Bills

In the Ninety-Seventh Congress, Congressman Kastenmeier introduced two bills to protect the employed inventor.¹⁴³ The first bill¹⁴⁴ sought to prohibit an employer from exacting a pre-invention patent assignment agreement from an inventor unless the invention is an "employment invention." The bill defined an employment invention as one made by an employee during his term of employment. An employment invention also had to be based on the inventor's normal or assigned duties, inside technical information acquired from his employer, or a fiduciary relationship.¹⁴⁵ Additionally, an employment invention had to relate to the employer's actual or contemplated business.¹⁴⁶ The bill also would have totally eliminated patent trailer clauses.¹⁴⁷ Moreover, it would have limited an employer's shop right to instances where the inventor made *substantial*

141 S. 1321 and H.R. 7111, *supra* note 129. Orkin suggests the bills are so poorly worded that the employer would be able to stop royalty payments after the inventor's employment terminates, or the inventor would be able to regain the entire patent rights if the employer fails to pay the minimum two percent royalty. Orkin, *supra* note 2, at 661.

142 See *Hearings*, *supra* note 1.

143 H.R. 4732, *supra* note 132, and H.R. 6635, *supra* note 133.

144 H.R. 4732, *supra* note 132. This bill is modeled on the Moss bill and existing German law. See *Hearings*, *supra* note 1.

145 H.R. 4732, *supra* note 132, § 402.

146 *Id.*

147 *Id.* § 403(b). This seems to ignore the problems of trade secrets discussed in notes 98-107 *supra* and accompanying text.

use of his employer's time, material, facilities, or funds.¹⁴⁸

Kastenmeier's second bill¹⁴⁹ proposed a mandatory compensation system for employed inventors. First, the bill divided employee's inventions into service inventions and free inventions. Service inventions are made during the period of employment and have either "grown out of the type of work performed by the employee" or are "derived from experiences gained on the job."¹⁵⁰ All other inventions are free inventions in which the inventor retains all the patent rights.¹⁵¹ An employer could release a service invention either by failing to diligently prosecute the patent application or by releasing the invention in writing.¹⁵² Alternatively, an employer could claim a service invention, but had to adequately compensate the inventor.¹⁵³ If an inventor and his employer could not agree, an arbitration board would determine the inventor's compensation.¹⁵⁴ The bill also sought to protect the inventor by prohibiting an employer from discriminating against an inventor who filed a complaint before the arbitration board.¹⁵⁵

These proposed federal statutes are all pro-inventor. They also share a common problem—the government would ultimately determine the inventor's compensation. This would create a myriad of bureaucratic problems, such as protracted appeals, lengthy delays, and difficult enforcement. The statutes also would require an employer to project the inventor's compensation at an early date—even before the employer begins production. The inventor, on the other hand, risks his employer's retaliation in seeking an undetermined compensation.¹⁵⁶ The administrative remedies provided in these bills

148 *Id.* § 403. This does away with the trivial use problem described in notes 65-70 *supra* and accompanying text.

149 H.R. 6635, *supra* note 133.

150 *Id.* § 402(3). This ambiguous language would attract lawsuits. The concepts could be better stated as: resulting from a) duties the employer has specifically assigned the inventor or b) the employer's trade secrets. (This formula, however, requires the inventor to assign a much narrower range of inventions than the language in the current bill.)

151 *Id.* § 402(4).

152 *Id.* § 413.

153 *Id.* § 412.

154 *Id.* § 414(b). The Patent Commissioner was to appoint a three member arbitration board. *Id.* § 435. The bill determines the invention's value using its fair market value discounted to reflect the inventor's position and the employer's contribution. *Id.* § 414(a).

155 *Id.* § 438.

156 Before he confronts his employer, an inventor must determine that the potential award of the invention's share outweighs the problems of confronting his employer. The inventor may have only vague notions of his invention's value because he lacks the ability to conduct marketability tests. His employer, on the other hand, may desire to conduct extensive studies before marketing the invention.

can only sink the government deeper into the regulatory quagmire.

III. A New Proposal

The state statutes are necessary because they protect the inventor by reducing his employer's ability to obtain a patent unrelated to the inventor's work. These statutes, however, do not solve the more fundamental problem of stimulating progress in the useful arts by giving an inventor a stake in his invention. The proposed federal statutes also fail to create a definite stake because an inventor must confront his employer to receive an undetermined compensation. A better solution would provide a clearly-defined boundary between an inventor's and his employer's rights.

As one possible alternative, Congress¹⁵⁷ could create a "reverse shop right" which would require the inventor to retain a royalty-free, non-exclusive, singly-transferable¹⁵⁸ license to use any patent assigned to his employer. This reverse shop right would make the inventor more valuable because he could sub-license his invention to a new employer upon changing jobs. The license's value would be an element of the inventor's new salary. Thus, employers would bid on a valuable inventor not only for his future achievements but also for his past accomplishments. Determining compensation, therefore, would presumably be easier. The reverse shop right would also avoid the administrative burden of the proposed federal statutes because salary negotiations rather than an arbitration board would determine the inventor's compensation.

An employer faces many uncertainties in developing an invention. Presently, he can eliminate one uncertainty by paying his research staff a salary independent of any invention's value. The Moss, Hart-Owens, and Kastenmeier bills prohibited this practice, thus imposing two additional uncertainties—the invention's value and the inventor's share. The reverse shop right adds only one uncertainty—how much money it will take to keep the inventor from finding other employment. Additionally, the risk of the inventor changing employers might only arise if the invention is valuable. Employers may be more willing to face this risk than the two uncertainties involved in the proposed bills. Inventors would certainly favor the reverse

157 The author hopes that the reader is convinced of the need for a national solution. Congressional action will avoid the the possible problems raised in note 13 *supra*.

158 "Singly-transferable" means that the inventor can only license one employer *at a time*. Thus, if he had multiple employers, an inventor could only license one employer under his reverse shop right. But, if the inventor switched jobs, he could transfer the reverse shop right to his new employer.

shop right to the complicated administrative process provided by the other legislative proposals.

Precedent exists for a court to find a reverse shop right. In *Mainland Industries, Inc. v. Timberland Machine & Engineering Corp.*,¹⁵⁹ the Oregon Court of Appeals left open the possibility of a reverse shop right although it refused to create one under the particular circumstances.¹⁶⁰ While acknowledging the concept's novelty, the court saw the clear analogy to the shop right doctrine. Another pioneer court has already held that an employee has a right to use trade secrets which he created for his former employer.¹⁶¹ Courts, however, may be reluctant to expand the employee's traditional right to use skills and knowledge learned through employment,¹⁶² by following *Mainland Industries* and actually finding a reverse shop right. Congress, therefore, should remove all doubt by amending the patent laws to create a reverse shop right.

IV. Conclusion

The current common law methods for distributing patent rights between an inventor and his employer do not maximize inventiveness because an employer can obtain an inventor's patent rights before the inventor has even created his invention. Courts should critically examine pre-invention patent assignments and void, as against public policy, unconscionable and anticompetitive agreements.

A few states have improved the inventor's situation by enacting statutes preventing an employer's overreaching. In addition, various congressmen have introduced bills to amend the patent laws to give the inventor a stake in his invention. Congress, however, has not responded to the need for a national standard. Nevertheless, congressional action is needed not only to alleviate the problems of the employed inventor but also to standardize the law.

¹⁵⁹ 58 Or. App. 585, 649 P.2d 613 (1982).

¹⁶⁰ The court reasoned that the inventor did not have an equitable right to a shop right because not only was he paid to invent but he also tried to hide the invention from his employer. 649 P.2d at 618. Miller, Mainland's employee, created the invention in 1976 but did not reveal it to his employer—he even reported that there was no solution to the problem. Later, two months before the patent was issued, Miller retired and formed Timberland. Timberland raised the reverse shop right issue as a defense to infringement. 649 P.2d at 618.

¹⁶¹ *Wexler v. Greenberg*, 399 Pa. 569, 160 A.2d 430 (1960). *Wexler* has generally not been followed. See, e.g., *Basic Chems., Inc. v. Benson*, 251 N.W.2d 220 (Iowa 1977).

¹⁶² *Reid v. Mass Co., Inc.*, 155 Cal. App. 2d 293, 318 P.2d 54 (1957); *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1 (Mo. 1966)(en banc); *Welex Jet Servs., Inc. v. Owen*, 325 S.W.2d 856 (Tex. Civ. App. 1959).

An unwillingness to impose a regulatory framework onto the employment relationship has stymied federal reform. A self-executing scheme, therefore, must be found which will allow the parties to work out an invention's value without government interference.

One solution may be to create a reverse shop right in the inventor. An inventor would receive a royalty-free, non-exclusive, and singly-transferable license to use any patent which he assigns to his employer. This right would enable the inventor to bargain for a higher salary based on his invention's value.

The American inventor must receive adequate compensation for creating unique solutions to our daily problems or he will not continue to look for these solutions. While an employer should also receive adequate compensation for his efforts in researching and developing the infant invention, the law must protect an inventor from his employer's possible overreaching. America's inventive fire is flickering—whether it dies out or continues to burn brightly depends on whether the patent law adequately rewards both the inventor and his employer.

William P. Hovell